A Summary of Kathleen McNamara's "Consensus and Constraint: Ideas and Capital Mobility in European Monetary Integration"[1]

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Summary

Kathleen McNamara seeks to blend macroeconomic theory with a more constructivist and historical institutionalist framework to explain the evolution of European economic integration, specifically from the Bretton Woods system (1945-1971) through the Snake (1972-1978) to the European Monetary System (EMS) (1979-1999), with some concluding remarks about the future prospects of the Euro (1999-present). McNamara argues that although macroeconomic theory explains some of the difficult policy choices and tradeoffs that faced European governments throughout the period, only the powerful emergence and draw of neoliberal ideas explains the specific choices made.

Mundell's "Unholy Trinity" as Applied to European Monetary Regimes

A staple of macroeconomic theory is Robert Mundell's theory of "Unholy Trinity,"[2] which states that "policy-makers can choose only two of the three following policy options at any one time: free capital flows; a fixed exchange rate; and monetary policy autonomy" (pg. 458). The three monetary regimes explored by McNamara exemplify the dynamics posited by Mundell: The Bretton Woods regime was characterized by relatively low levels of capital mobility yet autonomous monetary policy and fixed exchange rates; the European Currency Snake was characterized by rising/relatively high capital mobility, autonomous monetary policy, and a failed fixed exchange rate mechanism; and the EMS was characterized by high capital mobility, no monetary policy autonomy, and fixed exchange rates (pg. 459). Yet although "Mundell's framework helps make sense of how capital mobility interacts with national monetary policy-making and monetary co-operation […] it only sets the structural conditions under which governments decide on policy [and] does not tell us what choice governments will make when faced with these three incompatible policy goals" (pg. 460). For that, we need to bring in the role of ideational factors.

Neoliberal Ideas and Monetary Regime Change

Although McNamara notes that she seeks to use "positivist methods to study the role of ideas," she aligns fairly closely, at least at the surface, with constructivists (pg. 461). Specifically, she notes that "policy ideas can function like flashlights, guiding policy-makers by illuminating a specific path through the darkness of crisis and confusion, and providing them with strategies for achieving their broad interests" (pg. 462). In this light, McNamara also implicitly incorporates the notion of "critical junctures" posited by historical institutionalists, which point to critical periods of structural indeterminacy and uncertainty as windows of opportunity for individual agency to shape long-term outcomes (see Capoccia and Kelemen 2007).[3] The diffusion of ideas, which capture the imagination of policymakers and drive them to make particular choices, "is not politically neutral, however, but involves normative contests – in the case of monetary integration, over the balance between the state and the market. Neither does the change in ideas occur in isolation, but is the product of interactions

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[1] McNamara, Kathleen R. 1999. "Consensus and Constraint: Ideas and Capital Mobility in European Monetary Integration." *Journal of Common Market Studies* 37 (3): 455-476.

[2] Mundell, Robert. 1960. "The Monetary Dynamics of International Adjustment Under Fixed and Flexible Exchange Rates." *Quarterly Journal of Economics* 74: 227–57.

[3] Capoccia, Giovanni, and R. Daniel Kelemen. 2007. "The Study of Critical Junctures: Theory, Narrative, and Counterfactuals in Historical Institutionalism." *World Politics* 59 (3): 341-369.

within formal and informal multilatral institutions" (pg. 462). This further emphasis on the institutional context of idea-diffusion further blends institutionalism with constructivism.

Specifically, McNamara argues that to understand the shift from Bretton Woods to the Snake to the EMS and into the current framework of the Euro, we have to look to the emergence and entrenchment of a neoliberal consensus within Europe. Neoliberalism, writes McNamara, is an ideology founded upon three basic components/beliefs: (1) "expansionary monetary policies used in the hope of stimulating demand and employment will instead produce inflation and inflationary expectations and are thus counterproductive"; (2) "high and varying rates of inflation are incompatible with growth and employment"; and (3) that the two foregoing goals are "best achieved by governments committing themselves *not* to intervene in the economy with expansionary policies, but instead to abjure short-term activism and set macroeconomic policy in a medium-term frame to contain inflation" (pg. 463).

But what led to the diffusion of neoliberalism in Europe? Here, again, McNamara points to three critical factors. First, she points to the perceived failure of Keynsianism, a common perception that became particularly entrenched following the oil crisis of 1973: "policy-makers and their publics gradually and painfully came to believe that the expansionist, activist policies which had worked so well throughout the Bretton Woods years no longer achieved national employment and growth goals," particularly with the advent of stagflation (pg. 465). Second, the existence of an alternative policy paradigm, monetarism, magnetically drew policymakers towards neoliberalism. In particular, by placing itself in binary opposition to Keynsianism, monetarism "offered policy-makers a coherent lens through which to view their experiences with macroeconomic policy […] by rejecting the Phillips curve relationship as illusory, and arguing that rapid monetary expansion will lead directly to inflation without an increase in economic activity and employment" (pg. 466). Finally, the perceived policy success of West Germany, particularly its ability to avert the stagflation that emerged in the rest of Europe in the 1970s, solidified the grip of neoliberalism amongst members of the EEC. Specifically, "The experience of the German Bundesbank with restrictive, anti-inflationary policies offered a powerful and persuasive example of the merits of pragmatic monetarism for other EU central banks to emulate, and strengthened the role of the D-mark as the anchor currency of the EMS […] Bundesbank officials were not hesitant to make known their views on the importance of price stability, proselytizing the merits of restrictive monetary policy to their EU neighbours" (pg. 467). Here, McNamara seems to subtly draw on neofunctionalism's focus on the role of supranational entrepreneurs for promoting the normative desirability of a particular policy path.

Concluding Thoughts on the Euro

Despite the fact that McNamara's piece was published the same year that the Euro began to be implemented across the EU, She nonetheless offers some fairly prescient thoughts on the prospects of the Eurozone's common currency. Noting that the "the neoliberal consensus necessary to the sustainability of the EMS will continue to be crucial to the success of EMU," McNamara posits that, in the short-term, the Euro seems safely entrenched. In particular, not only are Europeans still influenced by the memory of Keynesian policy failure and the inflation of the 1970s, but the advocates of monetarist principles, and of following the German example, remain influential within EU economic policymaking (pgs. 469-470). Nonetheless, McNamara detects some possibly troubled waters ahead:

> "Important political tensions, arising from the elite nature of the neoliberal consensus and its monetary – not fiscal – emphasis, seem likely to jeopardize EMU's future. While the neoliberal policies of monetary rigour have had important effects on the economies of Europe, they have not been subject to intensive mass political debate or electoral contention, nor have they stimulated significant interest group politics. All this could soon change, however, for EMU both exacerbates and makes visible what

> was previously obscured, that is, the social costs of neoliberal reforms and the democratic deficit inherent in European integration more generally" (pg. 471).

Indeed, the potential politicization and critique of the neoliberal consensus in the EU is not only plausible, but would, in McNamara's view, be normatively desirable: "A more politicized monetary integration process would be welcome, despite the complexities of this policy area, for EMU's outcome will greatly impact on the daily lives of the citizens of Europe for decades to come" (pg. 472). Clearly with the advent of the European sovereign debt crisis in 2008-2010 European monetary policy and the neoliberal consensus has come under severe political scrutiny and criticism, which vindicates McNamara's prediction. Yet perhaps McNamara underestimated the resilience of the neoliberal consensus, particularly in lieu of a plausible alternative path.